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SMI Culture & Travel Group Holdings Limited
星美文化旅遊集團控股有限公司

(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)

(Stock Code: 2366)

NON-LEGALLY BINDING TERM SHEET
IN RESPECT OF THE PROPOSED ACQUISITION

References are made to the announcements of SMI Culture & Travel Group Holdings Limited (the “**Company**”) dated 11 November 2016 and 10 February 2017 in relation to the Proposed Acquisition. This announcement is made by the Company pursuant to Rule 13.09(2) of the Listing Rules and the Inside Information Provisions under Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

The board of directors (the “**Board**”) of the Company is pleased to announce that on 28 February 2017 (after trading hours), the Company (as the purchaser) and the Vendor entered into the Term Sheet in relation to the Proposed Acquisition.

THE TERM SHEET

The principal terms of the Term Sheet are set out below:

Date: 28 February 2017

Parties: (a) the Company; and
(b) the Vendor.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor is a third party independent from the Company and its Connected Persons (as defined in the Listing Rules).

ASSETS INTENDED TO BE ACQUIRED

Pursuant to the Term Sheet, the Company (by itself or through its subsidiaries) intends to acquire, and the Vendor (by himself or through other company which is wholly-owned by him) intends to sell 75% of the issued share capital of the Target Group.

CONSIDERATION

The consideration of the Proposed Acquisition is HK\$150 million and comprises of (i) HK\$80 million cash and (ii) consideration shares of the Company of HK\$70 million at an issue price of HK\$1 per Share ("**Consideration Shares**"). The final consideration is subject to further negotiation between the Company and the Vendor and valuation of the Target Group upon execution of the Formal Agreement.

PROFIT GUARANTEE AND REWARD

Under the Term Sheet, the Vendor has undertaken to the Company, among others, that:

- (i) for the three financial years ending 31 December 2017, 2018 and 2019 following the execution of the Formal Agreement, the net profit after tax of the Target Group as confirmed by an independent auditor will be not less than HK\$30 million, HK\$40 million and HK\$50 million, respectively ("**Profit Guarantee**"), equivalent to an aggregate amount of HK\$120 million for the three financial years;
- (ii) in the event that in any of the two financial years ending 31 December 2017 and 2018, the Target Group cannot meet the Profit Guarantee but records a net profit after tax of not less than 80% of the Profit Guarantee, the Target Group shall make up the shortfall in the subsequent financial year(s); and
- (iii) in the event that the aggregate amount of the net profit after tax as confirmed by an independent auditor, for the three financial years ending 31 December 2017, 2018 and 2019 is less than HK\$120 million, the Vendor shall compensate the Target Group by way of cash the shortfall between the actual net profit after tax and HK\$120 million.

If the Target Group meets 80% of the Profit Guarantee for each of the three financial years ending 31 December 2017, 2018 and 2019 and the aggregate net profit after tax equals or exceeds HK\$120 million, the Company shall transfer 20% of the issued share capital of the Target Group at nil consideration to the Vendor as a reward.

LOCK-UP PERIOD

Pursuant to the Term Sheet, without the prior written consent of the Company, the Vendor has undertaken to not in any way, directly or indirectly sell, transfer, pledge, charge, allot, lend, mortgage its interests and rights in (i) the Consideration Shares; and (ii) the shares of the Target Group at anytime during the period commencing from the date of the execution of the Formal Agreement up to the date of issue of the audit report of the Target Group for the financial year ending 31 December 2019 by an independent auditor.

DIRECTORS, CHIEF FINANCIAL OFFICER AND EMPLOYEES

Pursuant to the Term Sheet, the Company shall have the right to appoint three quarters (3/4) of the directors and the chief financial officer of the Target Group. The Vendor has also undertaken to the Company that the Vendor shall procure the nominated employees (including the Vendor) to enter into new service contracts and/or engagement letters. Such service contracts and/or engagement letters shall include, non-competition provision and relevant restrictive provision (including but not limited to the non-competition and non-solicitation). The effective period shall commence from the completion of the Formal Agreement to the date of issue of the audit report of the Target Group for the financial year ending 31 December 2019 by an independent auditor or the date of termination of the service contract and/or the engagement letter, whichever is the later.

CONDITIONS PRECEDENT

Pursuant to the Term Sheet, completion of the Proposed Acquisition shall be conditional upon the fulfillment of the following conditions precedent:

- (i) the Company being satisfied with the results of the due diligence of the Target Group;
- (ii) the Company being satisfied with the legal opinion in respect of the Reorganisation of the Target Group;
- (iii) the ordinary resolution in respect of the approval of the Formal Agreement and the proposed transactions under the Formal Agreement having been passed by independent shareholders at the special general meeting of the Company (if necessary);

- (iv) representation and warranties made by the Vendor under the Formal Agreement being true, accurate and not misleading in all material respects;
- (v) the Company being satisfied that there has not been any material adverse change from the date of Formal Agreement in respect of the affairs of the Target Group;
- (vi) the Company and the Vendor (or his designated subsidiaries of the Target Group) having obtained all necessary consent and approval in relation to the Formal Agreement and the transactions contemplated thereunder;
- (vii) the Reorganisation having been completed; and
- (viii) a joint-venture shareholders' agreement having been entered into between the Company and the Vendor.

LEGAL EFFECT

Save for the provisions in relation to binding and liabilities, confidentiality, governing law, assignment and costs under the Term Sheet, the Term Sheet has no legal binding effect. No legal obligation or liability shall be incurred by the Vendor and the Company for failure to enter into the Formal Agreement.

REASONS FOR THE ENTERING INTO THE TERM SHEET

The Company is a company incorporated in the Cayman Islands and continued in Bermuda, and listed in the Main Board of the Hong Kong Stock Exchange. The principal businesses of the Group include the investment in the production and distribution of films, investment in the production and distribution of television dramas and creation, production and distribution of new media contents, production and distribution of online and film advertisements, agency operation for films, directors, scriptwriters, artists, and tourism. It is the Group's long-term mission to explore suitable acquisition opportunities. The Directors are of the view that the Proposed Acquisition provides opportunities to the Company to broaden its business portfolio. Pursuant to the Supplemental MOU, the Company has the said right of exclusive negotiation in relations to the Target Group within the period of the right of exclusive negotiation. The Directors consider that the terms of the Term Sheet are fair and reasonable and that the execution of Term Sheet is also in the interests of the Company and the Shareholders as a whole.

GENERAL

If the Company proceeds with the Proposed Acquisition, it (or its subsidiaries) will enter into the Formal Agreement with the Vendor in respect of the Proposed Acquisition. The Company and the Vendor agree, on a best endeavour basis, to enter into the Formal Agreement within three months from the date of the Supplemental MOU. The Vendor has agreed to provide personal guarantee in relation to all the obligations of the Target Group under the Formal Agreement.

The Proposed Acquisition may or may not proceed. Shareholders and investors are reminded to exercise caution when dealing in the Shares. The Proposed Acquisition, if materialises, may constitute a notifiable transaction for the Company under Chapter 14 of the Listing Rules. Should (i) the Company (or its subsidiaries) enters into the Formal Agreement; (ii) decides not to proceed with the transactions contemplated under the Term Sheet or (iii) there be any material development on the Proposed Acquisition, the Company will inform the Shareholders and investors by way of announcement(s) in accordance with the Listing Rules as and when appropriate.

DEFINITIONS

“Board”	the board of Directors
“Company”	SMI Culture & Travel Group Holdings Limited, a company incorporated in the Cayman Islands and continued in Bermuda with limited liability, the Shares of which are listed on the main board of the Stock Exchange
“Connected Persons”	has the meaning as ascribed under the Listing Rules
“Directors”	the directors of the Company
“Formal Agreement”	the formal sale and purchase agreement to be entered into between the Company (or its subsidiaries) and the Vendor (or other company which is wholly-owned by him) in respect of the Proposed Acquisition
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“Hong Kong”	the Hong Kong Special Administration Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MOU”	the memorandum of understanding dated 11 November 2016 entered into between the Company and the Vendor in relation to the Proposed Acquisition
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Proposed Acquisition”	the proposed acquisition by the Company of 75% of the issued share capital of the Target Group
“Reorganisation”	the Vendor shall restructure all companies in the entertainment business in which the Vendor has participated in, (including but not limited to organising and planning concerts, stage equipment renting business, artist management, album promotion, production and agency business, distribution of related products and film investment) to a holding company which is wholly-owned by him, and shall include but is not limited to Galaxy Groups Sdn Bhd, Galaxy Entertainment (China) Limited and its wholly-owned foreign investment enterprise in the PRC. All charges and tax relating to the Reorganisation shall be undertaken by the Vendor
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the issued share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supplemental MOU”	the supplemental memorandum of understanding dated 10 February 2017 entered into between the Company and the Vendor

“Target Group”	after completion of the Reorganisation, the Target Group shall include all companies in the entertainment business which the Vendor has participated in (including but not limited to organizing and planning concert, stage equipment lending business, artist management, album’s promotion, production and agency business, distribution of related products and film investment) and shall also include but is not limited to Galaxy Group Sdn Bhd, Galaxy Entertainment (China) Limited and its wholly-owned foreign investment enterprise in the PRC
“Term Sheet”	the term sheet dated 28 February 2017 entered into between the Company and the Vendor in relation to the Proposed Acquisition
“Vendor”	Mr. Chan Tak Wai
“%”	per cent

By order of the Board
SMI Culture & Travel Group Holdings Limited
Kong Dalu
Executive Director

Hong Kong, 28 February 2017

As at the date of this announcement, the executive Directors are Mr. Zhong Naixiong (Chairman), Mr. Kong Dalu and Ms. Yao Qinxi; and the independent non-executive Directors are Mr. Rao Yong, Mr. Liu Xianbo and Mr. Wu Chien-Chiang.